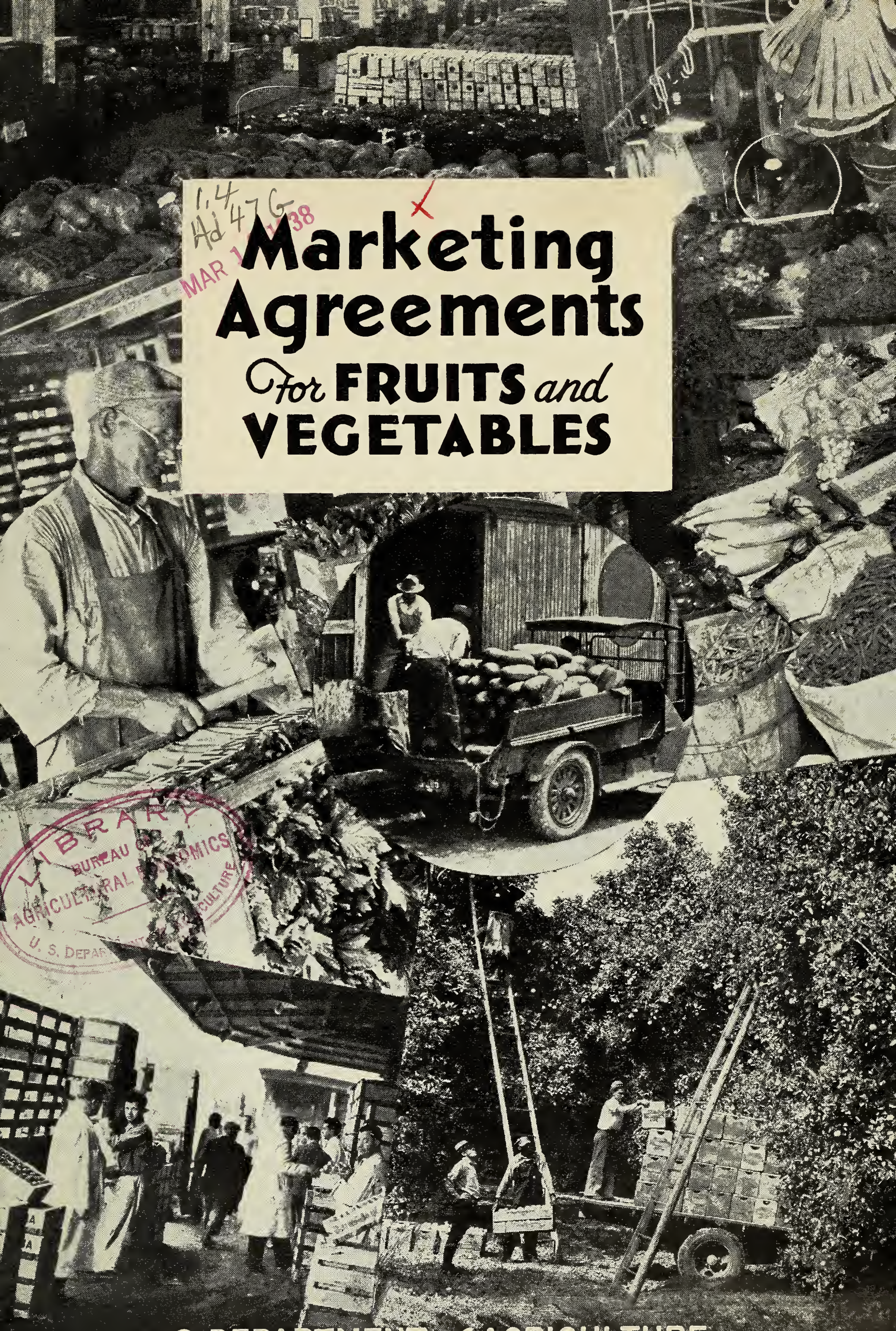
Marketing Agreements For FRUITS and VEGETABLES



U. S. DEPARTMENT of AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

.C.M. – 3
MARKETING INFORMATION SERIES

Marketing Agreements *for* Fruits and Vegetables

Market supplies, and the prices, of most fruit, nut, vegetable, and similar crops are subject to wide and sudden fluctuations. These swings are harmful to both producers and consumers.

Market shipments of such crops are likely to vary in volume because of one or more of the following:

(1) Yields, which may be unusually high or unusually low.

(2) Weather conditions, which may cause all or most of a perishable crop to move to market unusually early or late, or in an unusually short period of time.

(3) Prices, which may be so high that they encourage heavier plantings and production, or vice versa.

Overloaded Markets

Shipments larger than the markets are accustomed to take tend to glut or overload the markets. This overloading is likely to result in one or more of the following:

(1) Price reductions which may be so drastic that the producer of the commodity loses money on his crop and gets no return for it.

(2) Wastage of the product if the oversupply is so great, as has often happened, that supplies are dumped or destroyed to the loss of both producers and the people who need the product.

(3) Only temporary benefits to consumers, even though they buy their supply for a short time at prices much lower than usual.

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Undersupplied Markets

On the other hand, supplies much smaller than the market is able to take at a fair price mean:

(1) Prices to consumers higher than they would like to pay.

(2) Supplies so limited that would-be buyers are discouraged and change their consuming habits so that they may no longer be consumers of the commodity in question, even when its supply and price are normal again.

(3) Inducement to ship goods of low quality to market and thus destroy consumer confidence in the product.

(4) Encouragement to growers, by high prices, to plant too much and produce too heavily, with the result that overload follows after scarcity and supplies and prices seesaw up and down.

A Vicious Cycle

This cycle occurs again and again in the fruit and vegetable markets of the country. Over a period of years it brings uncertainty both to farmers and to consumers, who never know how much of a given product they are likely to be able to buy with a given amount of money.

These fluctuations lead to waste—of the product itself, of the labor of the farmers who produce it, and of the very soil which has been overcropped and unnecessarily exposed to erosion in order to grow the excess which swamps the market and reduces the price.

Cooperative Attack on the Problem

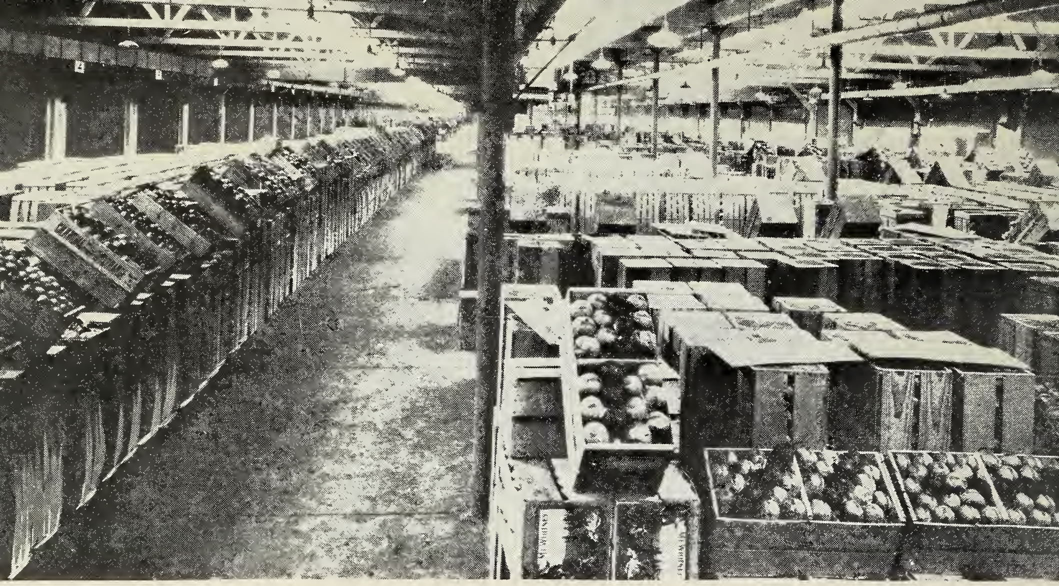
Efforts of farmers and handlers to even out the flow of fruits and vegetables to market, to improve the quality of the products sold, and to balance shipments against effective market demand throughout the season, were started years ago through cooperative marketing associations.

These cooperative marketing enterprises were based on the sound principles of thoroughly studying market conditions and demands, supplying the available markets steadily without either overloading or starving them, seeking larger seasonal returns for growers, giving customers steadier and more reasonable prices throughout the season, and avoiding market upsets and the waste of crops, money, labor, and soil fertility.

The chief difficulty that the cooperative organizations encountered was the fact that even when the majority of the growers and handlers of a given commodity worked together to improve the market for their product, their efforts could be defeated by a noncooperating minority who could wreck the whole plan by staying out of the program.

Mechanism for Obtaining More Complete Cooperation

The Agricultural Marketing Agreement Act of 1937 provides a means whereby the principles followed by the cooperative organizations from the beginning can, with Government assistance, be applied to *all* the growers and *all* the handlers of a com-



modity, when the big majority of the growers and handlers desire to follow a marketing program based on these principles. This mechanism makes it impossible for the noncooperation of a minority to wreck such a program, because all members of the industry are brought into the program, and the entire crop is marketed under it.

The principles of the Marketing Agreement Act do not replace the principles of the early cooperative marketing associations, but constitute a development and extension of them.

Marketing-agreement provisions, based on these principles, were included in the Agricultural Adjustment Act of 1933. They were revised in amendments of that act, passed in 1935. The Agricultural Marketing Agreement Act of 1937 reenacts and amends the marketing-agreement provisions of the Agricultural Adjustment Act of 1933. It constitutes a more definite and specific statement of the original principles and programs, with modifications and improvements made as a result of the experience under the earlier legislation.

Marketing-Agreement Program Method

In outline, a marketing-agreement program under the Marketing Agreement Act is a plan designed, proposed, and approved by the majority of the growers of the commodity concerned, in the area covered by the program.

The first mechanism in the plan is a marketing agreement, drawn up by the industry and approved by the Secretary of Agriculture after public hearings, under which the majority of the handlers of the commodity agree to abide by the terms of the program. With this agreement among the handlers, and with the approval of the majority of the growers, the Secretary of Agriculture may issue a marketing order which makes the provisions of the agreement applicable to all the handlers of the crop in the area.

Each program is operated by an administrative committee selected from among members of the industry itself to represent both growers and handlers.

Purpose of the Program

The marketing agreement program's objective is the stabilization and regulation of shipments to market so that shipments will more nearly meet, throughout the marketing season, the demands of the market.

How Shipments Are Regulated

Various methods of regulating shipments in order to obtain this result are provided for under the Marketing Agreement Act. These methods may be used singly or in combinations of two or more under a given program.

One method is to prescribe the total volume of the commodity that may be shipped during any period or during the whole marketing season to adjust shipments more nearly in keeping with market requirements.

Another is to prescribe the grades and sizes of the product that may be shipped, either in a given period of time or throughout the season. Withholding lower grades and less desirable sizes of the product from the market prevents growers from shipping portions of their crop on which they will suffer a direct cash loss because the price is too low to meet the necessary handling charges. It also has the effect of improving the quality of the product the consumer buys.

A third method of regulating the rate of shipment to market and adjusting supplies to demand from time to time is to prohibit shipments at specified times or for specified periods of time, until the market demand has time to catch up with the supply.

Any one or more of these methods is applied only after thorough study of the nature of the commodity, the existing market conditions, the prospective supply situation, consumer buying power, location of stocks, price outlook, and all the other factors that influence the market.

Adjusting shipments when required from time to time throughout the season has been one of the principal methods of supply control included in marketing-agreement programs for fruits and vegetables shipped fresh. Under this method a maximum volume

of shipment is fixed for each period, usually 1 day or 1 week, and prorated among handlers and growers. The California-Arizona orange and grapefruit industry has regulated shipments in this manner continuously since January 1934.

Provisions for limiting or prohibiting the shipment of inferior grades and sizes of products are included in a number of programs now in effect for general crops.

Shipment control by prohibiting all movement for short periods has been employed by the southeastern watermelon industry and in the case of Bartlett pears under the California deciduous-tree-fruit agreement. In the case of Bartlett pears this regulation has been a part of the broader control of the rate of shipment to market since it delays shipments to concentration points from which movement is further regulated on a daily basis. Under the watermelon program the principal object of the "shipping holiday" is to prevent or reduce large accumulations of cars on track at terminal markets, which cause rapidly declining prices.

Another type of shipment-control measure provided for in the Marketing Agreement Act and used principally in marketing-agreement programs for dried fruits and nuts, limits the season total supply for a given market outlet. In programs such as that for Pacific coast walnuts, supplementary provisions for diverting into alternative uses the volume not permitted to be sold in the primary outlet are an additional and important feature.

Regulations for controlling movement of a product to market are issued by the Secretary of Agriculture upon recommendation of the committee in charge of administering the program for the industry concerned.

The net effect sought through the establishment of a marketing-agreement program is, first of all, stabilization of supply and price to the benefit of both growers and consumers.

Not a Cure-All for Every Marketing Problem

Marketing-agreement programs developed under the Marketing Agreement Act do not necessarily offer the solution to every problem which affects fruit and vegetable growers in the marketing and distribution of their products. Such programs must fit the

problems and conditions of the industry concerned. For that reason they are established only on the initiative of the industry itself, and only after growers and handlers themselves have made the most careful examination, in public hearings and otherwise, of the provisions which they propose to put into the program. Only when a majority of the producers have approved the program can it be established, under the law.

Sometimes changes in production methods or in the type of product, or in the methods of financing the industry, are required. Sometimes growers can adjust their shipments better if they have more adequate information about their market.

Marketing-agreement programs cannot insure high prices for growers in spite of overproduction, low consumer buying power or other conditions. They cannot insure supplies as large as consumers would like, at prices consumers are willing to pay, in years of crop failure.

But, under suitable conditions they do help to iron out the unreasonable and inefficient fluctuations in supply and price which are disadvantageous to both producers and consumers. This end is accomplished through cooperative efforts of growers and handlers.

Supplemental Measures Sometimes Help

In addition to marketing agreement programs, Congress has made available certain funds which may be used for diverting price-depressing surplus quantities of agricultural commodities to encourage new uses of byproducts, stimulate new outlets or exports, and encourage domestic consumption through relief uses.

These surplus removal programs frequently supplement operations under marketing agreement programs.

Surplus removal programs, when put into effect, are not designed to provide growers with a profit on the surplus part of a crop, but to increase total returns to growers through improving prices for that portion of their crop which is sold through regular market channels.

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